A NATIONAL MILLSTONE AND ITS REMOVAL

A Plea for Sound Finance

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THE estimated revenue of the United Kingdom for the twelve months ending March 31st, 1912, is £181,000,000, and the estimated expenditure about the same amount, some £300,000 being the estimated small surplus. In 1896 the expenditure was £101,000,000. There has thus been an increase of no less than £80,000,000 in the expenditure in the last fifteen years. It will be seen that the national resources are being severely taxed, and it hardly seems likely that the same rate of increase can be maintained. One of the least satisfactory features of the national accounts is that, despite the immense increase in the expenditure, the National Debt does not secure enough attention at the hands of those who allocate the public moneys. Of the above-mentioned increased expenditure of £80,000,000, very little, proportionately, has gone to reduce the national liabilities.

The figures given in this pamphlet are generally round figures, odd amounts not being taken into consideration.

It is difficult to ascertain the exact position of the

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National Debt; in fact Sir Frederick Banbury mentioned recently that the figures of the dead-weight debt (*i.e.*, that for which there are no assets) are no longer given in the official documents, nor do I know exactly what methods are employed to effect reductions. The present Chancellor of the Exchequer, Mr. Lloyd George, stated that about twelve millions would be paid off during 1911—1912, but Mr. Austen Chamberlain seems to consider that £9,000,000 would express the actual reduction more correctly.

At any rate, whatever be the methods adopted, one thing is certain, and that is that the debt does not decrease anything like so fast as it should. The following figures, taken from Whitaker's Almanack, go far to prove that statement:

The amount of the debt in January, 1816, capitalised in the manner adopted since 1835, was £900,436,000.

At the accession of Queen Victoria, in 1837, the amount stood at nearly £788,000,000.

Small sums were paid off annually from 1837 to 1854, when the Crimean War added £33,000,000 to the debt.

Repayments were made from 1858 onwards, with slight increases in 1868, 1875, 1878, 1879, and 1886.

On March 31st, 1899, the gross total was £635,000,000, being a decrease since the accession of Queen Victoria in 1837, a period of sixty-two years, of £153,000,000.

The South African War, 1899—1902, and the North China Expedition in 1900 (Boxer Rising), increased the gross amount by £149,000,000.

The following quotations give an idea of debt reduction as seen from both the Liberal and Con-

servative sides, and incidentally give some interesting information.

Mr. Lloyd George (*Times* report, Wednesday, May 17th, 1911, page 15): "So that we this year make provision for the reduction of our capital liability to the extent of £12,462,000."

". . . for reducing our capital liability altogether, I have succeeded in providing £28,700,000 in three years."

"My right hon. friend (Mr. Asquith), in the three years he held the office reduced the National Debt by £42,300,000."

". . . together that means a provision in six years for the reduction of the debt by £70,000,000."

Mr. Austen Chamberlain (same, page 16):

"If these (*i.e.*, funds for buildings, telegraphs, etc., which ought to be kept separate from the dead-weight debt) were taken away, the Chancellor's boasted £12,500,000 paid off became only £9,000,000."

"How much had the Government added to the sinking fund? Not a single penny."

"Not only had they not . . . but they had actually decreased the provision for debt . . . they had saved in interest £2,000,000 a year, but they had taken away from the Sinking Fund 3½ millions, nearly twice as much as they had saved. When one saw how little this Government had been led to make sacrifices for the repayment of debt and how ready they were, on the smallest provocation, to deduct from either Sinking Funds or from both funds, they ought to be a little more modest in taking praise to themselves."

Sir F. Banbury (same):

". . . would be glad to hear at what amount the

dead-weight debt now stood. That information has always been given in previous Budget statements, but on this occasion it had evidently been inadvertently omitted. Consols now stood at 88½ (this is surely a misprint for 80½) instead of 111. At the price they now stood it might be wise finance to redeem Consols which now stood at 19½ below par."

As things stand at present, the repayment of debt is at the mercy of the Government of the moment, which, as a rule, does not scruple to rob the Sinking Fund whenever it finds it convenient to do so. That is one of the reasons why the reduction of the debt proceeds at so slow a pace. Thus Mr. Austen Chamberlain asserts that the present Government has taken 3½ millions from the Sinking Fund. And other Governments probably do the same.

An incident occurred quite recently which shows how easily the present system of debt repayment lends itself to manipulation in the behoof of the Government of the moment, and also how little respect is shown to the principle of reducing the national liabilities.

As far as I can make out the facts are somewhat as follows: The income tax, amounting to £680,000, due by eight railway companies should have been collected before the end of the financial year (March 31st, 1911), and in that case would have been applied in reduction of debt. But the companies were requested to defer payment of the £680,000 until after March 31st; this would bring the money into the next financial year, and it would then be used to meet current expenses. Thus the repayment of debt (the Sinking Fund) would be robbed of £680,000 and the

Government would have the money for current uses. This was done. The railway companies concerned revealed the transaction to the Opposition, and the Chancellor of the Exchequer, presumably to punish them for so doing, ordered the companies to pay their tax on January 1st in future.

I am not insisting on this episode to discredit the present Government; the Government that is above suspicion has yet to be evolved; I merely mention it to show that the Sinking Fund is considered fair game by everyone, is deemed the Aunt Sally or the Cinderella of the Exchequer.

Now what I propose is this: To ensure that the debt be paid off as rapidly as is consonant with the national resources, and that repayment be not at the mercy of every political wind and tide, I suggest that the reduction of debt be taken entirely out of the hands of the Government of the day and vested in a public trust quite independent of all political parties (such as, for instance, the London Water Board, the Port of London Authority, the Mersey Docks and Harbour Board), which would pursue the noiseless tenor of its way far from the ignoble strife of the madding political crowds.

The Australian railways used to be under the direct control of the political parties, with the result that the party that happened to be in power ran the railways as far as it could to suit its own book, the consequence being that the public interest was often lost sight of. Things came to such a pitch that it was found necessary to transfer control to three independent commissioners, who did not need to trim their sails to suit the political breeze of the

moment. The public weal gained enormously by the transfer.

A fixed annual sum should be handed over to the proposed body, which would apply it in the payment of interest on the debt and in amortisation.

The annual sum should be fixed in two senses of the word: its amount should never vary, and it should be so firmly entrenched by special legislation as to be safe from the predatory attacks of prowling Chancellors of any political complexion whatsoever.

It may be urged that any Chancellor on raiding bent, could, by means of his docile Parliamentary majority, override any arrangement that could be devised, seeing that Parliament is omnipotent.

That view, though seemingly correct in theory, is not quite so in practice, inasmuch as sacredness and inviolability of contract is a cardinal feature of our institutions—as it must be of all stable and civilised government—and therefore, if once the conditions of interest and repayment, etc., as above-mentioned were embodied in a contract with the proposed trust or board, no Government would care to burn its fingers by meddling with legal rights which would be upheld both in a court of law and also by public opinion. I would even farm out the debt by stringent contract to a private company if its inviolability could not be insured in any other way.

If it be argued that a trust or a company could be bought out by the Government of the day, *i.e.*, could be induced to relinquish its rights on sufficient compensation being granted, I reply that the Government that created the trust or company should agree, by

contract, to the trust or company receiving such good terms should any future Government wish to tamper with the arrangement that it would be exceedingly unprofitable for any Chancellor to make the attempt. The provisions as to redemption, etc., could be embodied in the conditions inherent to the new script issued in place of the present Consols; this would constitute a contract with the holders of the new stock.

The question now arises: When your board or trust or individual is duly constituted, upon what lines do you intend it to act? My answer is as follows:

At the present moment, June, 1911, the debt is, in round figures (all these figures are approximate in order to simplify calculations), say, £700,000,000. Consols at present stand at, say, 82. A stock at 82 paying 2½ per cent. lifted to par is about equivalent to a 3 per cent. stock. If converted into a 3 per cent. stock the £700,000,000 would amount roughly to £600,000,000. The annual interest charge on that would be £18,000,000. If the fixed annual sum to be handed over to the debt trust were settled at £30,000,000, it would allow of £12,000,000 being used for repayment. In other words, a 2 per cent. permanent and invariable Sinking Fund could be established (£12,000,000 is 2 per cent. of £600,000,000). And a 2 per cent. amortisation fund would pay off the whole debt of £600,000,000 in 31 years. So that in 1942 the National Debt would cease to exist.

I therefore suggest that a fixed sum (say £30,000,000, or more if possible) be paid annually to the debt board, they to deal with it as specified above. The

debt certificates to be paid off each year at par would be ascertained by annual drawings.

The actual cost of the debt for 1907—1908 was £29,500,000, for 1908—1909 £28,000,000, for 1909—1910 £21,760,000, and in the latest Budget (May, 1911) £24,500,000.

Private companies already adopt this method of annual drawings to pay off their debentures, and the loans of some foreign countries are floated on that plan, the stipulations as to annual drawings being shown on the prospectus. But private companies are run by boards whose composition, and hence policy, seldom varies much, whereas Governments change their whole *personnel*, and therefore usually their policy, at one swoop when one party comes into power and the other goes out. Hence the need for an entirely independent and separate debt trust out of reach of all parties.

I have already mentioned that the debt in January, 1816, amounted to £900,436,000. Had the scheme I am outlining in this pamphlet been adopted in 1816, this vast sum of £900,000,000 would have been paid off long ago and we should not be burdened to-day with a debt of several hundred millions dating back to before 1816. And such paying-off could have been effected under this present scheme without laying any undue annual burdens on the taxpayer. I give below a table which will prove this (I am reckoning that the debt bears interest at 3 per cent).

If in 1816 the pay-off fund to wipe out the debt of £900,000,000 had been fixed at 2 per cent. (£18,000,000 per annum) the whole debt would have been extinguished in 31 years.

If fixed at	$1\frac{1}{2}$	per cent.	($13\frac{1}{2}$ millions	per annum)	in 37	years.
,,	1	,,	(£9,000,000	,,)	47	,,
,,	$\frac{3}{4}$	,,	($6\frac{3}{4}$ millions	,,)	54	,,
,,	$\frac{1}{2}$	,,	($4\frac{1}{2}$ millions	,,)	66	,,
,,	$\frac{3}{8}$	,,	(£3,375,000	,,)	74	,,
,,	$\frac{1}{4}$	,,	($2\frac{1}{4}$ millions	,,)	86	,,
,,	$\frac{1}{6}$	,,	($1\frac{1}{2}$ millions	,,)	99	,,

In other words:

If pay-off fixed at	2	per cent.	the debt of	£900,000,000	would have ceased to exist in			1847
,,	,,	,,	,,	$1\frac{1}{2}$	,,	,,	,,	,, 1853
,,	,,	,,	,,	1	,,	,,	,,	,, 1863
,,	,,	,,	,,	$\frac{3}{4}$	,,	,,	,,	,, 1870
,,	,,	,,	,,	$\frac{1}{2}$	,,	,,	,,	,, 1882
,,	,,	,,	,,	$\frac{3}{8}$	,,	,,	,,	,, 1890
,,	,,	,,	,,	$\frac{1}{4}$	,,	,,	,,	,, 1902
,,	,,	,,	,,	$\frac{1}{6}$	,,	,,	,,	,, 1915

The above figures, *mutatis mutandis*, apply to our present debt.

It will be seen that a pay-off fund of 1 per cent., equivalent to £9,000,000 per annum—a sum which the taxpayer could easily have borne, amounting to only about 10*s.* per head of the population—would have extinguished the debt in 1863, *i.e.*, 48 years ago. I don't know how much interest we have paid on the old debt (excluding new modern loans) in those 48 years, but I don't suppose it can be much less than £10,000,000 per annum. If we take £10,000,000 as the figure, it means that we have paid £480,000,000, (some of which could also have been earning interest in those 48 years) an amount which we might otherwise have saved. And the worst is that we are not yet out of the wood, not by a very long way: we still have to keep on paying interest year by year,

so that the above sum of £480,000,000, practically thrown away, will be much augmented as the years roll on.

As I have already mentioned, the system of paying off debt at present in vogue is slipshod in the extreme, any Chancellor of the Exchequer being at liberty to filch a few millions from the pay-off fund (called the Sinking Fund) to square his accounts. And the Opposition of the day does not protest too strongly because the day will come—or has already come—when it will find it convenient to do the same, as Chancellors of both political shades are only human : if one side does it, so must the other. I believe the practice has been to apply any surplus revenue there may happen to be on the year to debt reduction. But, whenever the Exchequer cupboard is bare, the poor debt, like Mother Hubbard's dog, gets none—at any rate from that source.

The scheme I propose will be fair to both political parties and will remove an ever-present temptation from the path of both ; it will simply neutralise the debt repayment, whose sacred person will henceforth be taboo to all parties, and will take it out of the political arena altogether, safe from the itching fingers of all future Chancellors.

As already stated, I favour £30,000,000 as the fixed annual sum to be handed over to the debt board or debt trustee (but if more than that can be spared all the better.) That is only one-sixth of a Budget of £181,000,000, such as that of 1911—1912. In 1816 the debt-charge was about £33,000,000 per annum, which must have been about half the Budget of that day. The Chancellor of 1942 would have a

fine windfall; £30,000,000 per annum would be released that year for other purposes.

If it be suggested that we could anticipate that and enjoy at present some of that £30,000,000 by emulating the spendthrift son who mortgages his prospects, I venture to think that it would not be policy to do so. The generation of 1942 will probably need the money.

The knowledge that we are rapidly clearing ourselves of debt will strengthen our position in many ways. Professor Edward Hull stated recently that cheap coal will be a vital problem for us in 50 or 100 years' time. It probably will unless some other motive power be discovered or improved in the meantime. Kent coal may turn out well, but it will not affect the matter much. We export our coal to the tune of about 60,000,000 tons per annum in addition to the bunker coal supplied to our own ships in the foreign trade, amounting to about 20,000,000 tons more. John Stuart Mill said we should pay off our National Debt before our coal becomes exhausted. The following quotation is apposite:

Saturday Review, May 27th, 1911, page 662:

Mr. John Latto, Chairman of the Nitrate Producers' Steamship Company, Limited:

"Fifteen years ago bunker coal in Wales had cost 6*s.* 6*d.* per ton, while to-day the price was 13*s.* 6*d.* and the quality was poorer . . ."

The present debt when transferred to the proposed debt trustee should be left undisturbed, *i.e.*, all future loans should be kept separate and dealt with quite independently.

It might be a good idea to raise future loans, or at

any rate part of them, on the principles here enounced, namely, repayment at par by annual drawings in accordance with a regular pay-off of *x* per cent. per annum.

The independent debt trust idea could, however, probably be carried out even with the present method of redemption at no fixed price (if that be thought the better method), *i.e.*, redemption by purchase in the open market at current price. This would also obviate conversion.

Consols have fallen through reduction in interest, etc., from about 112 in 1897 or thereabouts to 82 to-day (1911), a drop of 30 points. This is distinctly a hardship on those who have been forced—such as Post Office Savings Bank depositors—to invest in them, and, of course, it has hit all holders of Consols, the premier security, hard. The repayment-at-par method would stabilise them immensely.

It is evident that I cannot further develop the proposals here set forth without overloading the narrow space of this pamphlet. I could say much more had I room to spare; but I think I have said sufficient to give a general idea of the scheme and of the advantages that would flow from its adoption.

For more than 200 years the reign of no British Sovereign has been free from the incubus of Debt; would it not add even further lustre to the reign of their most gracious Majesties, King George the Fifth and Queen Mary, were it to be known in history as the reign during which that Old Man of the Sea, the National Debt, received his quietus?

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